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Centralizing cash management, trade finance with one bank improves control, efficiency

The case of one RBS client — a U.S.-based technology company with more than \$10 billion in annual revenues that operates in more than 150 countries — illustrates many of the risk mitigation and efficiency benefits of a centralized treasury function.

Not only has this company been a trailblazer in the past decade in centralizing cash management, but today it's in the vanguard of firms achieving value by centralizing trade finance business, too.

Cash management trendsetter

Today the company is "a prime example of the most highly centralized treasury model possible," says Gale Vander Sluis, director, Global Treasury Advisory, at RBS. But that didn't happen overnight, she says.

For about a decade, RBS has been the company's lead cash management bank in Europe, the Middle East and Africa and a strategic advisor as it gradually shifted to centralized treasury management. Driven by a desire to improve risk management and achieve higher levels of straight-through processing, the company first established three shared service centers to regionalize the cash management function. "Then, about five years ago, they decided to collapse the three shared service centers into a single shared service center in the low-cost environment of India, and go completely centralized," Vander Sluis says.

Now, all strategic cash management decision-making takes place at U.S. headquarters, while the shared service center in India handles a wide range of processing duties for most of the company's units worldwide, from paying and reconciling invoices to handling accounting entries.

RBS supports the company's international cash management in many ways. The company uses the bank's Access suite of Internet-based cash management products to facilitate global disbursements such as business-to-business payments, payroll (in 25 countries) and tax payments. In addition, the technology firm has established a cross-border notional pooling arrangement to enhance liquidity.

The Access suite integrates with the company's enterprise resource planning (ERP) system and enables the upload of a single file for payments in multiple currencies and countries.

One of the key ways the company measures the success of its banking structure is by the number of transactions it can execute through straight-through processing (STP). "It's about 98% or higher on the cash management side," Vander Sluis says.

Centralizing trade finance

More recently, the company has taken the rare step of centralizing a key global trade finance activity, the processing of its \$40 million portfolio of bank guarantees.

The company is regularly asked to post bank guarantees to support its overseas operations and government contracts. Executing these guarantees across 150 countries poses risk management and audit challenges, as it's difficult to keep track of what all the agreements say and to maintain a comprehensive view of contingent exposures.

As a result, the company no longer allows local units to put guarantees in place locally. Instead, it created a central facility for issuing standby letters of credit in the United States in favor of an RBS overseas branch, which then issues a local guarantee.

"The standby letter of credit and guarantee modules of MaxTrad (legacy ABN AMRO global trade portal) provide comprehensive reporting, so at any given time the client can go online to view what standby letters of credit/guarantees are outstanding, where they are located, their dollar value and when they expire," explains Bryen Zimmerman, director, Global Trade Finance, at RBS.

Making SOX a non-event

The company's decision to fully centralize the treasury management function has made its auditors happy, Vander Sluis says. "The company has achieved transparency regarding bank account visibility, authorized signers and exposures around the world, and it's all documented and easily accessible," she says.

In fact, because of the greater control and visibility the company has achieved through centralization, the Sarbanes-Oxley Act, which continues to strain the resources of many companies, has been a non-event for the client, she says.

Adds Zimmerman: "By centralizing its treasury management, this company has gained an increased sense of its liquidity position and overall risk profile, and from a trade perspective centralization has given it the ability to quickly respond to the needs of its sales force."

Cash and trade with one bank

Using a single bank, RBS, as its major cash management and trade finance provider has given the company a valuable strategic advisor to accompany it along its centralization path. The relationship has been particularly helpful since the company's global treasury manager is tasked with handling both cash management and bank guarantee activities.

"Working with cash and trade people at the bank who are collaborating on your behalf, it just makes life so much easier for a treasury manager," Zimmerman says. "Looking at the products together also offers visibility to pricing that can be advantageous."

To learn more about the potential benefits of centralizing cash management and trade finance activities at your corporation with RBS, contact your Global Treasury Advisory or Global Trade Finance representative.